Business Plan

Fiscal Year Ending March 31, 2012

BCFerries

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FORWARD LOOKING STATEMENTS

This Business Plan contains certain "forward looking statements". These statements relate to future events or future performance and reflect management's expectations regarding our growth, results of operations, performance, business prospects and opportunities and industry performance and trends. They reflect management's current internal projections, expectations or beliefs and are based on information currently available to management. Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward looking statements are based include traffic, the Canadian Dollar relative to the US Dollar, fuel costs, construction costs, the state of the local economy, fluctuating financial markets, demographics, tax changes, and the requirements of the Coastal Ferry Services Contract.

Forward looking statements included in this document include statements with respect to our:

- expectations regarding our safety, operational, employee, regulatory, customer relations, marketing and environmental initiatives;
- asset renewal programs for vessels and terminals;
- expectations regarding our performance measures;
- expectations regarding the impacts of Bill 20;
- expectations regarding traffic levels;
- estimates of funding under the Infrastructure Stimulus Fund program and the Structured Financing Facility program;
- expectations of a net loss and an increase in revenues and expenses in fiscal 2012; and
- budget projections.

In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology.

A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with traffic volume and tariff revenue risk, safety and security, asset risk, accident risk, tax risk, environmental risk, regulatory risk, labour disruption risk, limitations of vessel repair facilities, risk of default under material contracts and aboriginal land claims.

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this Business Plan are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this Business Plan, and British Columbia Ferry Services Inc. assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by applicable law.

A Message from the President & CEO

In fiscal 2012 BC Ferries will continue to experience traffic volumes well below our traffic volume in 2007. Overall the economic conditions that started in the summer of 2008 persist today. BC Ferries however is not alone. Vancouver, Victoria and Comox airports have also not recovered. Ski Resorts, which experienced tremendous snow conditions this year, have not seen the volume that one would expect. Province wide hotel occupancy peaked at 66.9% in 2007 and barely exceeded 60% last year.

What is causing this is uncertain; however, a few things are known. The Canadian dollar exceeds par with the US dollar for an extended period of time. Fuel prices exceed $1.30 per litre. The US is still in recovery status and discounts on destination travel are significant. Border crossings to the US are up 30% to 40% and Canadians are enjoying a once in a lifetime opportunity to explore the world at a discount. Also of note, new passport requirements which are keeping Americans at home. Travel statistics for border crossings from the US into Canada are at the lowest levels since Statistics Canada started tracking cross-border trips in 1972, while June 2010 reflected the lowest border crossings recorded.

However, our goal is to continue to improve the service and be ready when the next wave of growth in traffic arrives.

Despite this uncertainty in traffic, the promising news is our continued focus on improving safety, customer satisfaction and the condition of our assets. Examples of this progress in fiscal 2011 include:

- A notable decrease in both time loss injuries and days lost due to injury, with the introduction of SailSafe Phase II
- A high customer satisfaction level of 89%
- More than $103 million capital invested in terminals and vessels
- Record on-time performance and fleet reliability.

This past year produced some memories and highlights. The most notable are:

- Company-wide celebrations of our 50th anniversary
- Awarding of $119.4 million duty remission
- Opening of the BC Ferries Vacations Centre in downtown Vancouver
- Introduction of free wireless internet service on all ships travelling between Tsawwassen and Swartz Bay.

Meanwhile, our employees continued to diligently carry out the day-to-day operations of this complex and diverse company. Keeping everything running so smoothly without distractions is no easy feat. Yet, our key indicators confirm that we are maintaining or improving on customer satisfaction, on-time performance, safety and reliability.

As we prepare to transition to Performance Term Three, I am confident in our employees' ability to adjust and respond accordingly to a whole new set of challenges.

Finally, I want to ensure that full credit is given to all the great employees that make up the BC Ferries team.

Our Vision, Mission and Definition of Success

Our Vision

To provide a continuously improving west coast travel experience that consistently exceeds customer expectations and reflects the innovation and pride of our employees.

Our Mission

To provide safe, reliable and efficient marine transportation services which consistently exceed the expectations of our customers, employees and communities, while creating enterprise value.

Definition of Success

Our definition of success is to provide to our customers integrated marine transportation services that are safe, reliable and continuously improving, while delivering best value for money and operating in a manner that preserves our financial integrity.

Measuring Success

In support of our Vision, Mission, and Definition of Success, the Board of Directors and management of BC Ferries have implemented comprehensive long-term performance measures to gauge the progress of the business and its ongoing commitment to continuous improvement.

1. Employee Safety (employee injury frequency rate X severity rate divided by 1000)
2. Passenger Safety (number of passenger injuries per one million passengers)
3. Reliability (actual round trips divided by scheduled round trips)
4. Customer Satisfaction Rating
5. Cost per passenger (total operation cost-ancillary revenue) / total passengers
6. Earnings before interest, taxes and amortization (EBITDA, in $ millions)

	Fiscal 2009		Fiscal 2010		Fiscal 2011		Fiscal 2012
	Actual	Target	Actual	Target	Actual	Target	Target
Employee Safety	2.48	3.42	1.54	2.50	1.53	1.56	1.31
Passenger Safety	22.54	22.80	20.16	21.50	18.11	21.50	18.11
Reliability Index	99.67%	99.4-99.59%	99.60%	99.4-99.59%	99.53%	99.4-99.59%	99.4-99.59%
Customer Satisfaction	86%	82%	91%	84%	89%	84%	83%
Cost per Passenger	$20.69	$20.34	$20.96	$20.67	$21.90	$21.66	$23.29
EBITDA (millions)	$152	$162	$186	$189	$181	$189	$176

Business Plan Goals

Our strategies are structured around five key goals that are critical to our success. Of these, no goal is more important than safety.

The following sections define the supporting strategies and tactics for each of the five goals.

1. Safety

To protect our customers and employees by continuously improving the safety of our operations, inclusive of vessels, terminals and facilities.

2. Operational Reliability

To continuously improve the operational reliability of vessels, terminals and facilities.

3. Continuous Improvement

To be better at everything we do.

4. Value for Money

To continuously improve value to our customers at every point along the customer experience chain.

5. Financial Integrity

To achieve key financial targets, ensuring that sufficient capital and retained earnings are available to revitalize our fleet, facilities and infrastructure.

1.Safety

To protect our customers and employees by continuously improving the safety of our operations, inclusive of vessels, terminals, and facilities.

Safety - Strategies and Tactics

We will meet or exceed all safety regulations

At BC Ferries, the safety of our customers and employees is our top priority. In fiscal 2012, we will:

- Continue to foster a culture of safety through training, education and communication, through such activities as Town Hall meetings, audits, investigations, safety newsletters, and employee-supervisor education partnering;
- Validate, implement and monitor action items arising from SailSafe Phase II, continuing towards a shared goal of safety improvement in partnership with the Union;
- Implement the operational risk management policy including operational risk registers, management training and tracking of identified issues;
- Establish an electronic Safety Management System for documentation control, improving the communication of risk related information;
- Establish a site incident investigation policy, consisting of human factors investigation training and tools for measuring effectiveness;
- Continue to focus on reducing time loss injuries and days lost through awareness and early intervention when injuries occur; and
- Continue to reduce controllable passenger injuries and maintain high standards for food safety throughout the fleet.

2. Operational Reliability

To continuously improve the operational reliability of vessels, terminals and facilities.

Operational Reliability - Strategies and Tactics

We will continue to invest in our assets to improve overall system reliability. Our total capital investment budget in fiscal 2012 is approximately $130 million.

- $103.7 million in vessel and terminal capital expenditures will be made in fiscal 2012 , including:
  - Life extension of the *Queen of Chilliwack*
  - *Queen of Burnaby* asset betterment
  - Propeller and hub upgrades on the *Queen of Alberni*
  - Sewage treatment upgrades for various vessels
  - Replace/upgrade marine structures at Swartz Bay
  - Replace/upgrade marine structures at Tsawwassen
  - Rebuild the berth at Hornby Island
  - Rebuild the berth at Denman Island East
- Systems and other capital expenditures of $26.3 million will be made in fiscal 2012 to support business requirements and improve infrastructure reliability and service delivery;
- Continue to refine standard operating procedures and improve ship to shore communications to improve procedural consistency and better align operations;
- Continue to maintain state of 'readiness' by ensuring vessels are effectively crewed with trained personnel, and bridge electronics, firefighting equipment and safety equipment is constantly monitored and fully functional;
- Continue to reduce the percentage of round-trip cancellations due to engineering incidents to 0.3% or less;
- Continue to improve vessel turn around times, through effective communication and issue resolution; and
- Continue to improve customer communication channels through cost efficient methods to manage issues quickly and effectively.

3.Continuous Improvement

To be better at everything we do.

Continuous Improvement - Strategies and Tactics

We strive to improve our productivity through finding efficiencies

- Continue to work with the Province of British Columbia to identify service level options and resulting capital asset investment requirements, which may reduce costs while ensuring ongoing sustainable service;
- Continue to optimize fuel consumption through capital investment, vessel load management and appropriate use of shore power;
- Create options for improved service, reduced risk and quick decision making through training, risk management and accessibility of leadership;
- Continue to optimize vessel maintenance procedures and processes to ensure reliability and effective use of resources;
- Seek opportunity to improve efficiency of all Horseshoe Bay routes by updated analysis of traffic flow, in-port times and sailing schedules; and
- Strengthen employee knowledge through enhanced simulator training and professional development.

We will work to improve customer experiences

- Develop a Customer Service Excellence strategy focusing on frontline customer interaction, appearance and shipboard customer communication;
- Implement an internet-based nutritional analysis for all menu items;
- Improve customer communication at the terminals through electronic signage, reducing reliance on public address announcements; and
- Strive to provide desired travel package options and smooth movement of commercial goods for our customers.

We will prioritize safety and the environment

- The sewage pump-ashore and waste water treatment project continues with upgrades to four additional vessels, further reducing sewage discharge from our fleet;
- To complement optimization of fuel consumption, focus on further reducing sulphur emissions through the expanded use of B5 biodiesel fuel; and
- Continue progression of the Watt Now! Program, using employee education and awareness to reduce hydro consumption in offices, at terminals and on board vessels by another 5% in fiscal 2012.

4. Value for Money

To continuously improve value to our customers at every point along the customer experience chain.

Value for Money - Strategies and Tactics

We are continuing to find ways to provide better value and service to our customers. In fiscal 2012, we will:

- Continue optimization of fuel consumption;
- Work with communities and tourism operators to provide valuable BC Ferries vacation packages;
- Develop and execute an integrated marketing campaign for CoastSaver pricing promotions;
- Increase menu innovation and expand new product introduction;
- Optimize labour through operational and traffic modelling tools;
- Update our website, improving content and communication;
- Implement energy conservation initiatives;
- Support the introduction of new reservable products and services;
- Develop new onboard brand and layout standard for vessels in preparation for the *Spirit of British Columbia* mid-life upgrade;
- Support commercial customers by providing supply chain solutions focusing on total transportation costs; and
- Monitor claims and key performance indicators for loss prevention opportunities.

We will access funding through provincial and federal programs wherever possible to offset costs

- On September 24, 2009, the provincial government announced that, as part of the federal government's Infrastructure Stimulus Fund program, we will qualify for partial reimbursements of eligible costs for eight sewage pump-ashore and waste water treatment projects, as well as other terminal projects. The net funding expected in fiscal 2012 is $3.2 million, and
- Under the federal Structured Financing Facility Program, we received approval for *Quadra Queen II* project funding of up to $1.8 million for which we will be submitting claims in fiscal 2012.

5.Financial Integrity

To achieve key financial targets, ensuring that sufficient capital and retained earnings are available to revitalize our fleet, facilities and infrastructure.

Financial Integrity - Strategies and Tactics

Our commitment:

We will continue to ensure the company's financial integrity during this period of uncertain economic conditions while providing safe, efficient service for our customers.

In fiscal 2012, we will:

- Fully cooperate with the British Columbia Ferries Commissioner (the Commissioner) as he conducts his six month review of the *Coastal Ferry Act*, which is aimed at balancing the interests of ferry users with the financial sustainability of BC Ferries;
- Continue to work with the Province of British Columbia to identify service level options and resulting capital asset investment requirements, which may reduce costs while ensuring ongoing sustainable service;
- Actively manage long-term capital and operating plans;
- Maintain strong relationships with the Commissioner and Ministry of Transportation and Infrastructure;
- Encourage ridership and generate non-fare revenues to ultimately offset ferry fares through product development and marketing such as CoastSavers, BC Ferries Experience Card, assured loading product and gift certificates;
- Promote BC Ferries by strengthening our image and marketing BC Ferries Vacations products to build destination travel business within the province of British Columbia;
- Focus on providing transportation solutions for the commercial market, building market share through diversification and strong customer relationships;
- Pursue opportunities for alternative funding sources for capital and security initiatives; and
- Use best practices in supply chain management and risk/insurance coverage to manage costs.

We acknowledge that, as in fiscal 2010 and fiscal 2011, during these uncertain and economically challenging times we will not earn the rate of return approved by the Commissioner.

Financial Plan

Our financial plan supports the strategies and tactics within the business plan. It contains detailed information on our fiscal 2012 operating and capital budgets.

When we were established as an independent company on April 1, 2003, the major strategic issue facing us was the replacement of our aged assets, specifically vessels, terminals and information technology systems.

Over the past eight years there have been many accomplishments. In this time we have brought into service seven new vessels, completed upgrades to twelve vessels, several marine structure replacements and terminal improvements, security upgrades and sewage pump-ashore and waste water treatments. This ongoing reinvestment in our assets is reflected in interest and amortization expenses, which have grown from $68 million in fiscal 2004 to $185 million in fiscal 2011, an increase of $117 million.

There have been significant operating expense increases, such as insurance premiums, property taxes, utilities, benefits program rates, labour agreements, and a doubling of fuel costs since fiscal 2004.

From fiscal 2004 compared to fiscal 2011 we have reduced our overall annual fuel consumption by 2.5%, a savings of 3.0 million litres (a reduction of over 5.5 million litres from fiscal 2003). Additionally, over this seven year period, administrative costs have decreased, even before taking inflation into account.

($ millions)	Fiscal 2004 Actual[1]	Fiscal 2011 Actual
Operations Costs		
Labour	202	258
Fuel[2]	50	97
Materials, Supplies, Contracted services and other	33	37
Insurance[3], property tax, utilities and credit card fees	10	20
Maintenance Expenses	84	86
Administration Expenses	32	31
Net Financing and Amortization[4]	68	185

We will continue to focus on providing safe, reliable and efficient marine transportation services as we look forward to the next ten years. We will be working towards replacing eleven vessels, many of which will have been in service for 55 years, and the many required marine structure replacements and terminal improvements.

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1 The fiscal 2004 figures for Operations, Maintenance and Administration (OM&A) expenses have been adjusted from those figures previously reported to reflect classifications of expenses used in fiscal 2011. Total OM&A expenses for fiscal 2004 are identical to those previously reported.

2 Fuel reflects the total cost of fuel net of fuel price hedging gains or losses.

3 Insurance includes gains or losses from our subsidiary, BCF Captive Insurance Subsidiary Ltd.

4 Net Financing includes financing for the Kuper owned by our subsidiary, Pacific Marine Leasing Inc.

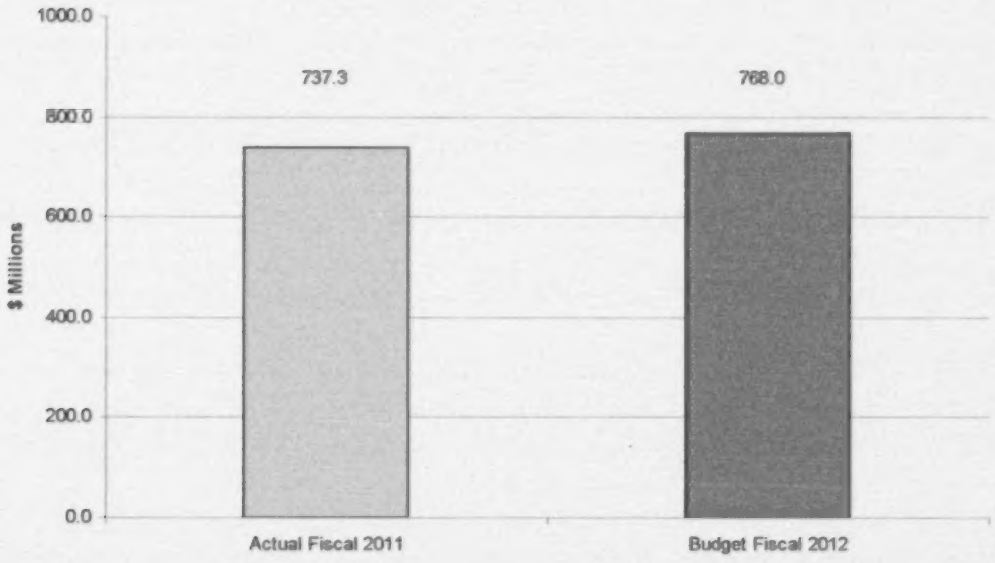
Operating Budget

Lower-than-historic levels of ferry travel continued to be experienced during fiscal 2011 and are forecasted to continue through fiscal 2012. As a result, we are forecasting a net loss of $19.4 million in fiscal 2012. This is based on revenues of $768.0 million, offset by total expenses of $787.4 million.

Operating Budget ($ millions)	Fiscal 2011 Actual	Fiscal 2012 Budget
Revenues		
Total Tariffs including Social Program Fees	482.1	509.1
Catering & Other Revenues	101.3	103.1
Federal – Provincial Subsidy Agreement	26.9	27.4
Ferry Transportation Fees	127.0	128.4
Total Revenue	737.3	768.0
Expenses		
Operating Expenses	555.4	593.5
Net Financing Expense	71.3	71.9
Amortization	114.5	123.7
(Gain) on disposal and impairment of fixed assets	(8.7)	-
(Gain) Loss on Subsidiaries	1.0	(1.7)
Total Expenses	733.5	787.4
Net Earnings (Loss)	3.8	(19.4)

Revenues

Our revenues are projected to increase by 4.2% in fiscal 2012.



Total Revenues will be affected by the following:

Total Tariffs including Social Program Fees

Tariff revenue is driven by our tariff rates and traffic volume and is expected to increase by 5.6% over fiscal 2011. A reduction in tariffs of 2% was implemented during fiscal 2011 due to our successful application for duty remission for the three Coastal Class vessels and the *Northern Expedition*. For fiscal 2012, the Commissioner has established price cap increases of 3.38% on the major routes and 6.71% on all other routes. We have applied these increases to the reduced fares from fiscal 2011.

Reflecting the overall slow economic recovery and shift in travel behaviour for fiscal 2012, passenger and vehicle traffic levels are expected to remain flat to those experienced during fiscal 2011.

Federal-Provincial Subsidy Agreement

Under the terms of the Coastal Ferry Services Contract, we receive an annual amount from the Province based on its agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. The amount of this payment is adjusted annually based on the Vancouver Consumer Price Index. The Coastal Ferry Services Contract between the provincial government and ourselves provides that the provincial government will make available to us the full proceeds of this agreement from the federal government. For fiscal 2012, revenue from this source is anticipated to be $27.4 million.

Provincial Fees

The Coastal Ferry Services Contract between the Province of British Columbia and us has three components. The primary component is for the provision of services on designated routes. The second includes reimbursement from the Province for fares associated with social programs (e.g. Ministry of Health travel assistance program, children travelling for school and B.C. seniors travelling Monday to Thursday). The final component is funding provided to us to oversee service provided by independent operators on eight non-regulated routes.

The Ferry Transportation Fees for designated routes will increase in fiscal 2012 reflecting an agreement with the Province to extend the life of the *Queen of Chilliwack*.

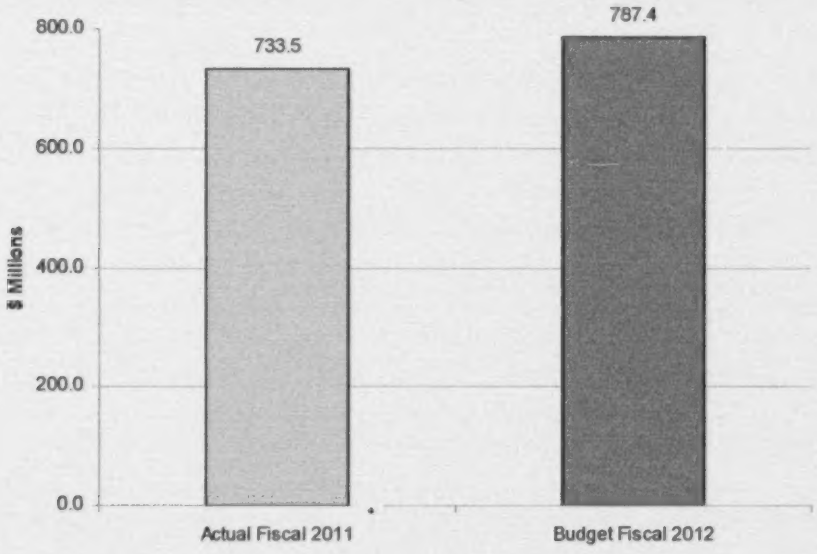
Funding for non-regulated routes will remain at $1.9 million in fiscal 2012.

Other Revenues

For fiscal 2012, other revenues are expected to increase by 1.8%. Catering and retail revenues make up the largest component of this revenue category.

Expenses

Our expenses are projected to increase by 7.4% in fiscal 2012, due primarily to increases in operating expenses and amortization costs.



* The fiscal 2011 actual results reflect a gain on sale of our former corporate office building on Fort Street of $9.3 million. This gain is an offset to total expenditures. In the absence of this gain, actual fiscal 2011 total expenses were $742.8 million.

Operating Expenses

For fiscal 2012, operating expenses are expected to increase by 6.8% or $38.1 million. This increase is attributable to many factors including increases in the price of fuel, insurance costs, benefit costs, vessel refit and maintenance, costs associated with the exclusion of approximately 150 management positions, and costs associated with the changes to the *Coastal Ferry Act* contained in Bill 20 – *Miscellaneous Statures Amendment Act (No. 3)* including becoming subject to the *Freedom of Information and Protection of Privacy Act*.

Amortization

For fiscal 2012, amortization costs are expected to increase by 8.1% as a result of the following: full year amortization related to capital expenditures in fiscal 2011 and partial year amortization related to capital expenditures in fiscal 2012 associated with the upgrade and life extensions of several vessels, sewage treatment program and marine structure upgrades. This is partially offset by the impact of the receipt of duty remission and related GST for the Coastal Class vessels and *Northern Expedition* in fiscal 2011.

Net Financing

For fiscal 2012, our net financing expense is expected to remain relatively unchanged from fiscal 2011.

Capital Budget

We plan to invest $130 million in fiscal 2012.

Our ferry services are supported by 35 vessels, 47 terminals, four maintenance yards, one refit complex and a head office. Investments in infrastructure are required to replace or upgrade aged assets, improve service to our customers and meet regulatory requirements. Our major capital projects for fiscal 2012 include:

Vessels:

- Sewage Treatment Program for various vessels
- *Queen of Chilliwack* life extension
- *Queen of Burnaby* asset betterment
- *Queen of Alberni* propeller and hub upgrades

Terminals:

- Swartz Bay berth 4/5 marine works
- Tsawwassen berth 5 mid life, dolphins, catwalk, and sheet pile wall replacement
- Hornby Island berth rebuild
- Denman Island East berth rebuild
- Little River ramp, abutment, tower, wingwall & dolphin 13 replacement

Information Systems:

- Automated Customer Experience Program (including Reservations and Point of Sale)
- Payroll system replacement

Other Projects:

- Bridge Team Simulation Program
- Fleet Maintenance Unit (shipyard) electrical service upgrade

The following table details the actual capital expenditures for fiscal 2011 and the planned expenditures for fiscal 2012 by asset type, including interest during construction and net of expected proceeds from Infrastructure Stimulus Funding.

Asset Type ($ millions)	Fiscal 2011 Actual	Fiscal 2012 Budget
Vessel Projects	$45.5	$48.3
Terminal Projects	$53.9	$55.4
Information Systems and Other projects	$29.3	$26.3
Net Capital Expenditures	**$128.7**	**$130.0**

British Columbia Ferry Services Inc.
Suite 500, 1321 Blanshard Street
Victoria British Columbia V8W 0B7
www.bcferries.com / www.bcferryauthority.com